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SUBJECT: KAZAKHSTAN: DAS KROL REVIEWS PPEPI, OTHER ECONOMIC ISSUES WITH DPM ORENBAYEV

REF: ASTANA 1517

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¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: Deputy Assistant Secretary George Krol and National Security Council Director for Central Asia Kurt Donnelly met Deputy Prime Minister Yerbol Orynbayev on October 30, primarily to review the structure, goals, and interim results of the U.S.-Kazakhstan Public Private Economic Partnership Initiative (PPEPI). Orynbayev also outlined the government's plans to diversify the economy, prospects for regional economic integration, the future of the Customs Union with Russia and Belarus, and development of trade via the Caspian corridor. Deputy Foreign Minister Kairat Umarov and Vice Minister for Energy and Mineral Resources Lyazzat Kiinov also attended the meeting. END SUMMARY.

THE DIFFICULTY WITH DIVERSIFICATION

¶3. (SBU) Orynbayev, a studious, spectacled, senior administrator still shy of his 40th birthday, admitted that the government has had difficulty diversifying the economy away from the oil and gas sector. "We want to diversify, but we just can't seem to get there," he said, citing Kazakhstan's small domestic market, land-locked location, and huge transportation distances as impediments. He noted that major U.S. corporations, such as Chevron and ConocoPhillips, are well established in Kazakhstan and "feel comfortable here, they feel right at home." (At which Kiinov joked, "They feel better here than at home!"). Orynbayev said the goal is for other U.S. companies to feel just as comfortable investing in Kazakhstan as the major oil companies do.

PPEPI PILLARS

¶4. (SBU) Orynbayev said PPEPI will help the government achieve greater economic diversification by establishing an investment climate that will attract businesses outside of the energy sector. He highlighted the policy recommendations of PPEPI's five working groups, all of which the government reviewed carefully, but now it

is time for action, he said. "We must turn these recommendations into results," he elaborated, "by setting annual priorities. Each year, we must define what it is that we would like to achieve. What results do we want?"

TRADE AND CUSTOMS ADMINISTRATION

¶15. (SBU) Orynbayev then briefly commented on issues from each of the five working groups. Under trade and customs, he cited the example of customs clearance procedures. He said that when he traveled from Canada to the United States, he found it very efficient to have the U.S. customs clearance point located in Canada, which meant that upon arrival in Washington, he could go right to work, without delay. Orynbayev welcomed U.S. assistance and advice in this area others in which the administrative procedures of Kazakhstan could be improved in order to increase international trade.

SME DEVELOPMENT

¶16. (SBU) Orynbayev said that Kazakhstan's small- and medium-sized enterprises (SMEs) are eager to explore business opportunities with partners from the United States, but he cautioned that, "our businesses are young, impatient, and want to get rich quickly." He suggested that exchange visits and partnerships with U.S. companies would help Kazakhstani companies to mature and develop long-term growth strategies.

SCIENCE AND TECHNOLOGY

¶17. (SBU) Turning to science and technology, Orynbayev underscored the importance of the new research university, provisionally named the New University, although he noted the President has generously

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offered his name to the university. "After Astana," he said, "this is the government's number one priority." Orynbayev explained the university, expected to be complete by June 2010, will encompass a huge territory and be fully enclosed, "like a shopping mall in the United States, with roads and buildings inside. It will be very modern, very comfortable."

UNIVERSITY OF THE FIRST PRESIDENT

¶18. (SBU) Orynbayev stressed that this will be a new type of university, based on "new principles." Prime Minister Karim Masimov is chairman of the management board, and the university president is now in the United States actively recruiting teachers and staff, and looking for partner institutions such as Harvard and Duke medical schools. Orynbayev said the government made a conscious decision to target U.S. teachers and administrators "because the United States has the best educational system in the world." He explained Kazakhstani students would study in Kazakhstan for two years, followed by two years abroad, after which they would receive two degrees: one from the Kazakhstani university and one from the foreign institution.

¶19. (SBU) The government has established an endowment for the new university, he said, and students would be eligible for government-funded scholarships, like the Bolashak grants. The first class will enroll in July 2010 and will be limited to Kazakhstani citizens, but Orynbayev asserted the government plans later to encourage enrollment from Russia and other Central Asian countries.

CORRUPTION IN PUBLIC PROCUREMENT

¶10. (SBU) Commenting on the work of the Transparency and Economic Efficiency working group, Orynbayev said he was pleased the group had selected the issue of public procurement, because "it is a steady source of corruption." He said that current public procurement procedures contain loopholes that encourage corrupt practices. He requested U.S. assistance and expertise to close the loopholes, strengthen oversight, and introduce e-procurement procedures, all of which would support the government's anti-corruption campaign.

¶11. (SBU) Orynbayev provided a very favorable assessment of the American Chamber of Commerce's management of the PPEPI project, calling AmCham very active, strategically focused, and well organized (reftel). He acknowledged, however, that the Kazakhstani private sector has not been as engaged or as active in the initiative as expected. As a result, he asserted, the new working groups have diversified their membership beyond Atameken and the Forum of Entrepreneurs. Orynbayev said he asked Minister of Industry and Trade Aset Isekeshev to nominate candidates for the PPEPI working groups, but he demurred, saying, "Everyone's still working their way out of the economic crisis. They're too focused on their own bottom line."

ALL BUSINESS IS LOCAL

¶12. (SBU) When informed that many U.S. companies complain about the treatment they receive from local authorities, Orynbayev responded that he would willingly look into any specific allegations or issues, and suggested a new working group be established under the aegis of PPEPI to study the matter. "Kazakhstan is a unitary state," he declared. "We can identify specific problems, even if they are regional, and we can resolve them. I don't see any problem with that. That is in our hands."

REGIONAL ECONOMIC INTEGRATION

¶13. (SBU) When asked about the prospects for greater regional economic integration with other Central Asian states, Orynbayev

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stressed President Nazarbayev's full support for previous efforts, but unfortunately, little progress has been made. "Our president," he emphasized, "understands that we live in a modern, globalized society. We cannot be rich ourselves if our neighbors are poor." He said that the Central Asian republics represent a potential market of 50 million consumers, and could do more to attract investment to the region. According to Orynbayev, Uzbekistan in particular has the ability to drive greater regional economic activity. "Uzbekistan is the key," he contended. "If they would just open up their borders and their markets to trade, they would realize immediate returns." Unfortunately, he asserted, the government of Uzbekistan has elected to close its economy, and close its borders. "They didn't even let returning migrant workers who had been living in Russia and Kazakhstan come back into Uzbekistan once the crisis hit. And these are their own citizens!" he exclaimed.

THE CUSTOMS UNION WITH RUSSIA AND BELARUS

¶14. (SBU) According to Orynbayev, the government has made a strategic decision to pursue the Customs Union with Russia and Belarus, and he said he expects it to expand in the future to include other Central Asian republics. Orynbayev cited the size of the potential market of 200 million consumers, and Kazakhstan's investments in infrastructure such as the road to China, as incentives for increasing regional economic integration. "The big question for the Customs Union is," he said, "where will the investment money go, once we have common tariffs? We definitely want to attract investment to Kazakhstan. Our goal is to make Kazakhstan an export platform for the Russian and regional markets."

¶15. (SBU) Deputy Foreign Minister Umarov said that he believed Kazakhstan could compete successfully with Russia for foreign investment. He claimed Indian investors, for example, prefer Kazakhstan because it offers access to the Russian market on more open, favorable terms, with fewer bureaucratic obstacles.

CASPIAN CORRIDOR

¶16. (SBU) When asked how important it is for Kazakhstan to develop trade, transportation, and travel across the Caspian, Orynbayev's response was swift: "This is a top priority for Kazakhstan," he explained, "because we are a land-locked country, and that is our

way to the sea, and to world markets." He said Kazakhstan and Azerbaijan are strong, active trading partners, and Kazakhstan is still the top foreign investor in Georgia. "This is a strategic transportation corridor for us," he said. "We don't want to be entirely dependent on Russia for transportation to world markets."

IRAN HAS GREAT POTENTIAL

¶17. (SBU) When asked about the importance of Iran to Kazakhstan as a trading partner, Orynbayev said Kazakhstan exports grain and swaps oil with Iran, but he downplayed the volume of trade activity, asserting, "Iran has big potential to become a major trading partner in the region, once its political problems with the United States are resolved. Until then," he concluded, "trade activity will be low." He acknowledged Kazakhstan's construction of a rail link to Iran via Turkmenistan, and claimed it would be used primarily for grain shipments.

NEW YORK INVESTMENT FORUM

¶18. (SBU) Orynbayev confirmed that he will lead the government's delegation to the Investment Forum in New York on November 23-24. He is also willing to travel to Washington, pending meeting requests.

¶19. (SBU) COMMENT: Orynbayev's enthusiastic support for PPEPI will pay dividends well beyond the specific policy recommendations of the

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working groups. Thanks to this initiative, we have a direct line to the top economic policymakers in government. With U.S. companies such as Parker Drilling and Baker Hughes complaining of unfair treatment by local tax authorities, we may need to take Orynbayev at his word and raise those issues directly with him. Orynbayev's comments about the Customs Union confirm previous reports from Vice Minister of Trade Aitzhanova and others that Kazakhstan entered into the agreement willingly, driven by a desire to access the Russian market on more preferential terms. We will continue to monitor reports that other Central Asian states may also be willing to join the Customs Union, although given their dismal record of economic cooperation and integration to date, that seems unlikely in the short term. END COMMENT.

¶20. (U) This cable has been cleared by DAS Krol.

HOAGLAND